

Joint Economic Committee WEEKLY ECONOMIC DIGEST

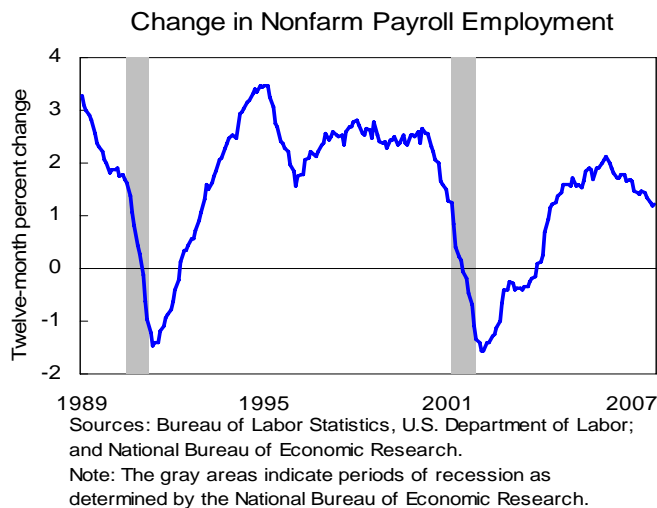
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair

November 5, 2007

ECONOMIC NEWS

Sept. Payrolls Higher, Annual Job Growth Weak

Payrolls rebounded in September. Total payroll employment at nonfarm establishments increased by 166,000 jobs last month, after growing at an average monthly pace of only 88,000 jobs over the previous four months. Gains in September were concentrated in service-sector payrolls and were only partly offset by job losses in residential construction, manufacturing, and retail sales. Even so, total payrolls have grown by only 1.2 percent over the past year (See Chart).



The unemployment rate was unchanged last month, but its determinants weakened. Unemployment remained at 4.7 percent of the civilian labor force in September, reflecting largely offsetting declines in both employment and labor force. The percentage of the population with a job dropped 0.2 percentage point to 62.7 percent, while the percentage of the population in the labor force (that is, either working or actively seeking work) dropped by 0.1 percentage point to 65.9 percent. Both measures have declined significantly since the start of the year and remain well below their levels in March 2001 when the recession began.

The economy grew solidly in the third quarter, but that pace is unlikely to be sustained. Real (inflation-adjusted) gross domestic product grew at a 3.9 percent annual rate, following a 3.8 percent gain in the second quarter. That slight increase third-quarter growth largely reflected accelerations in consumption and exports that were only partly offset by a pickup in imports (which lowers GDP) and deeper declines in housing investment. Most economists expect economic growth to slow in the fourth quarter. The economy has grown at a 2.6 percent over the past year.

IN FOCUS

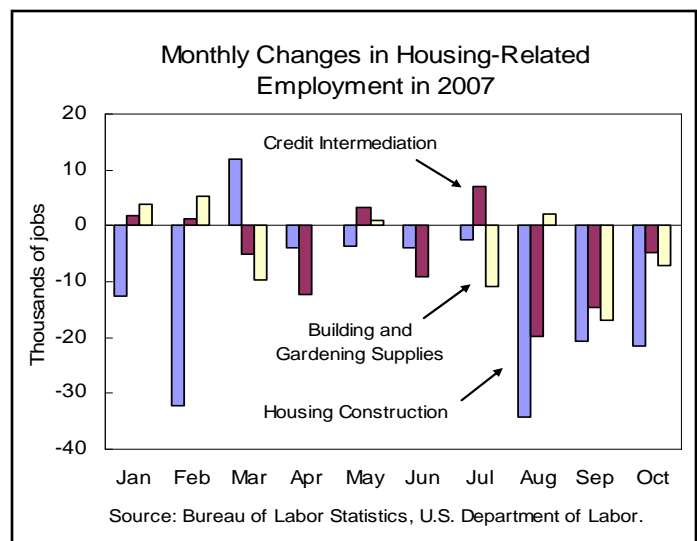
Fed Chief to Face Serious Housing, Trade, and Economic Questions in Thursday JEC Hearing

Last week's hefty crop of news on the economy's performance in recent months yielded a number of happy surprises. Perhaps the most surprising development was that the economy grew at a 3.9 percent annual rate in the third quarter—most forecasters had been expecting a gain closer to 3.0 percent. Also surprising was that the payrolls of nonfarm businesses and governments expanded by 166,000 jobs in October—forecasters had been expecting a more modest gain on the order of 125,000 jobs. Good economic news is always welcome. However, there are good reasons to expect that the economy's third-quarter lift might not be sustained over the near term. The focal point of concern for the near-term remains the beleaguered housing sector and the potential for the ongoing slump to weaken the broader economy.

To be sure, last week's news on housing remained grim. Real (inflation-adjusted) residential investment declined at a 20.1 percent annual rate in the third quarter, nearly doubling its rate of decline in the second quarter, and subtracting 1.1 percentage points off the economy's overall rate of growth in the third quarter. Spending on new home construction declined at an increasing rate between June and September, and currently high inventories of unsold new homes give little reason to expect that a turnaround is imminent. Housing-related employment declined further in October, offering no encouragement that the housing market's woes are any closer to an end (See Snapshot).

Continued on reverse...

SNAPSHOT



Joint Economic Committee WEEKLY ECONOMIC DIGEST

THE WEEK AHEAD

DAY	RELEASE
Wednesday, Nov 7	Productivity and Costs (Third Quarter 2007, Preliminary) Monthly Wholesale Trade: Sales and Inventories (September 2007) Consumer Credit (September 2007)
Thursday, Nov 8	JEC Hearing— The Economic Outlook , Federal Reserve Chairman Ben Bernanke testifies in Room 216, Hart Senate Office Building, 10:00 a.m.
Friday, Nov 9	U.S. Import and Export Price Indexes (October 2007) U.S. International Trade in Goods and Services (September 2007)

*Thursday
Nov 8th:
Chairman
Bernanke
testifies on the
economy*

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Oct	Sep	Aug	2007 Q3	2007 Q2	2007 Q1	2006	2005
Real GDP Growth (%)	—	—	—	3.9	3.8	0.6	2.9	3.1
Unemployment (% of labor force)	4.7	4.7	4.6	4.7	4.5	4.5	4.6	5.1
Labor Productivity Growth (%)	—	—	—	n.a.	2.6	0.7	1.0	1.9
Labor Compensation Growth (%)	—	—	—	3.2	3.6	3.2	3.1	3.3
CPI-U Inflation (%)	—	3.7	-1.2	1.9	6.0	3.8	3.2	3.4
Core CPI-U Inflation (%)	—	2.4	2.4	2.5	1.9	2.3	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

The two leading sources of economic growth in the third quarter were consumption (up at a 3.0 percent annual rate) and goods exports (up at a 23.0 percent annual rate). Most economists do not expect consumption to match its third-quarter gain over the near term. After surging up at a 0.6 percent rate in August, growth of consumer spending has already slowed to a 0.1 percent pace in September. Falling home prices and rising energy costs have contributed to declining consumer confidence in recent months and are likely to subdue consumer spending over the near term.

The third-quarter surge in exports largely reflects a burst of capital goods exports in July (complete data on September exports are not yet available and were estimated by the Department of Commerce). While the recent pace of export growth is unusually high, many economists regard solid foreign economic growth and the declining dollar as fundamentally favorable to U.S. exports of goods over the near term. However, the effects of strong goods exports on employment in U.S. manufacturing have yet to become evident. Factory payrolls declined by 21,000 jobs in October, the 16th consecutive monthly decline.

Coming in the middle of a week of surprises, the Federal Reserve's decision last Wednesday to cut its target interest rate for federal funds by ¼ percentage point to 4½ percent surprised no one. The Fed surprised many analysts by reconfigured its assessment of the near-term risks to monetary policy. Currently, the Fed views those risks as balanced between the possibilities of lower growth and higher inflation. In other words, the Fed now regards itself as no more likely to cut interest rates in the near term than it is to raise them.

Even so, the Fed's announcement was clear that it expects economic growth to slow in the near term. Chairman Bernanke will testify further on the economic outlook when he appears before the JEC on Thursday.